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Peer pressure

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Editorial

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Social interactions, such as between friends, family members or colleagues, can be a powerful influence on many of the outcomes that matter in public policy. The focus of this issue of *Research in Public Policy* is on the role played by social interactions – or 'network effects' – in a number of policy settings.

The first four articles summarise research presented at a workshop on social influences on charitable giving – looking at how individuals' donations are affected by the behaviour of other people around them. Two articles focus on behaviour within networks of givers, looking at the importance of peer effects and publicity on giving, while the other two consider how charitable giving is affected by people's wider non-giving networks – their immediate social networks (such as friendships) as well as the ethnic composition of the communities in which they live. The finding from Canada that growing diversity is associated with lower levels of giving suggests a number of potential challenges for policy-makers and practitioners.

The next two articles consider the importance of social networks (such as those accessed by having attended an elite university) in professional appointments – to the judiciary and to company boards. They examine whether well connected individuals are likely to be more successful. This is particularly relevant at a time when some senior executives have been defending their high levels of pay by appealing to the independence of board members, and when increasing diversity in the top professions has been on the policy agenda.

The final two articles on social interactions consider how they might influence aspirations to continue in education and to engage in risky behaviour such as smoking. The first article analyses data on adolescent friendship networks and finds that young people's educational aspirations do appear to be influenced by good friends. The second looks at how peer effects, together with altruistic concerns about friends or family can lead to a trade-off: family members might influence each other to smoke cigarettes, but at the same time concerns about harm to others through passive smoking might decrease the amount they smoke.

The final article in this issue looks at a policy question that links to the current debate around the effects of competition in healthcare. It summarises new evidence on hospital mergers and concludes that the consolidation of English acute hospitals over the late 1990s and early 2000s brought few benefits.

Helen Simpson and Sarah Smith

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Peer effects in charitable giving

'Seeing others give is one of the most powerful drivers of further giving', according to the UK government's 'Giving White Paper'. CMPO research by Sarah Smith and colleagues analyses data from two fundraising websites to measure the extent to which donors are influenced by how much other people have given.

There is a widespread belief that peer effects are important in charitable giving. Yet perhaps surprisingly, there is little direct evidence on whether donors respond to donations made by their peers and how powerful these effects are in practice.

A number of studies have looked at the effect of 'social information' – that is, information given to donors on how much other people have given (Alpizar et al, 2008; Shang and Croson, 2009). But these are not quite the same as genuine peer effects since the information usually refers to other (unknown) donors or to a 'typical' donor.

Another study looks at peer effects in solicitation (Meer, 2011). Using the random assignment of college roommates in the United States, it shows that charitable solicitations by alumni are more persuasive when they come from a former roommate than from someone the potential donor didn't know. But again this is not quite the same as showing that there is an effect from observing donations made by peers.

An earlier study addresses peer effects among workplace teams (Carman, 2004). But in this case, the peer group includes the team captain who plays a direct role in encouraging and motivating giving among team members.

Our research looks directly at peer effects in charitable giving by analysing data from two fundraising websites: Justgiving and Virgin Money Giving. In the UK, these are a major source of income for many charities. Since 1991, more than two million individual fundraisers have raised more than £1 billion for a wide range of different charities through the biggest individual fundraising websites.

The way that online fundraising typically works is as follows. An individual fundraiser decides on an activity to raise money for their chosen charity. These activities often involve a sporting event such as running a marathon or swimming the English Channel, but novelty activities such as head shaving are also popular.

The individual fundraiser then sets up a personalised page on a fundraising website and invites people – typically their friends, family and work colleagues – to make donations to their chosen charity. Most of the donations are made online to the fundraising page and are passed directly by the website to the charity, together with tax relief at the basic rate of tax if the donor has made a Gift Aid declaration.

All of the online donations are listed in reverse order on the fundraising page with the most recent first. So information on how much has been given and by whom is visible to each donor who arrives at the fundraising page.

We make use of this set-up to look at whether individuals' donations are affected by how much other people have given, in a situation where many of those donations are likely to have been made by people who are very similar to them and whom they may know directly. Our analysis focuses on more than 300,000 donations made on behalf of more than 10,000 individual fundraisers running in the 2010 London marathon and seeking to raise money for charity.

The key issues we explore are whether donors are influenced by how much other people have given before them – and, in particular, whether the level of past donations affects how much they give.

Of course, donations to a page are likely to be correlated as a result of the similarity of members within the peer group, as well as because of common fundraiser effects – that is, the fact that some fundraisers will be better than others at encouraging donations. Our research strategy relies on the within-page variation in the observed history that arises as a result of donors arriving at the website at different times.

We find clear evidence of positive peer effects. The easiest way to show this is to look at what happens if there is a large donation to a fundraising page, where we define 'large' as twice the average (mean) donation on the page and not less than £50 – which works out as around £100.

Donations before and after the large donation are shown in the first panel of Figure 1. The pattern is quite striking: donations made after the large donation are clearly larger than donations before. If, as seems likely, there is some randomness in exactly when people go to make a donation – and hence in whether they happen to arrive just before or just after the large donation – then we can attribute this difference to the causal effect of the large donation.

The effect is fairly sizeable: a large donation increases the average donation size by £10 on average. So as a fundraising strategy, a £100 donation would pay back in ten donations' time.

There is also no evidence that peer effects 'crowd-out' donations to other pages. Making use of the fact that some Justgiving donors sponsor multiple fundraisers, we look at whether, after following a large donation and giving more to one page, donors give less to other pages that they subsequently visit.

Focusing on around 1,600 donors who make multiple donations, we find, as before, that the estimated direct effect of a large donation is positive and significant, while the estimated spillover effect is positive but insignificant. This implies that there is no evidence that the 'crowd-in' effect of a large donation to one page is also associated with a crowd-out of donations to other fundraising pages.

Does a bigger 'large' donation lead to a bigger response? The general answer is yes, but only up to a point. Our analysis shows that the effect of a large donation that is twice the page average is to increase subsequent donations by £9.40 on average.

A large donation that is between three and five times the page average increases subsequent donations by £10.30 on average, while a large donation that is between five and ten times the page average increases subsequent donations by £15.20 on average. Yet a large donation that is more than ten times the page average has the same effect: £15.20. So there may be a limit to the power of peers to boost donations.

We also find that peer effects can cause the value of donations to go down as well as up. Looking at the effect of a small donation, defined as less than half the page average, the second panel of Figure 1 shows that the effect is similarly clear: donations are smaller than the ones that went before. Again, the effect seems sizeable: subsequent donations are around £5 lower following a small donation.

In summary, this evidence shows that peer effects are important, at least in this online fundraising context. But there may be some limits to their effectiveness in increasing donations: people can only be persuaded to increase the amount they give up to a point; and peer effects can cause people to give less as well as more.

Peer effects in charitable giving can cause the value of donations to go down as well as up

It is also important to understand why peer effects might be important. One possibility suggested by previous research is that donors respond because other people's donations change the way they think about the value of the cause they are being asked to support (Vesterlund, 2003).

But looking across charities, we find no evidence that peer effects are stronger for smaller, newer charities where information on the value of causes is likely to be more important. We also find no difference between older and younger donors.

We can rule out the possibility that donors are simply trying to avoid being the least generous donor to a page (since large donations matter). Similarly, we can rule out the possibility that donors are trying to be the biggest donor (since small donations matter). Both findings are also inconsistent with a story in which donors seek to conform by aligning themselves with the average donation as measured by the median or mode.

A large donation on a fundraising website increases the subsequent average donation size

Our preferred explanation, which is consistent with an empirical finding that the effect of large and small donations diminishes across the page, is that donors give what they think that they personally are expected to give where the distribution of the donations of their peers (along with other factors, such as income and specific cause) feed into the formation of that expectation.

This article summarises *'Peer Effects in Charitable Giving: Evidence from the (Running) Field'* by Sarah Smith, Frank Windmeijer and Edmund Wright, CMPO Working Paper No. 12/290 (http://www.bris.ac.uk/cmpo/publications/papers/2012/wp290.pdf).

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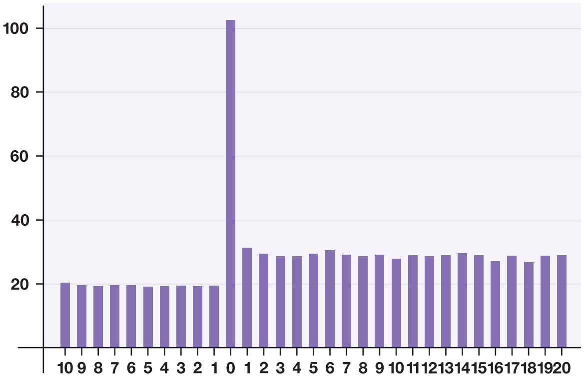
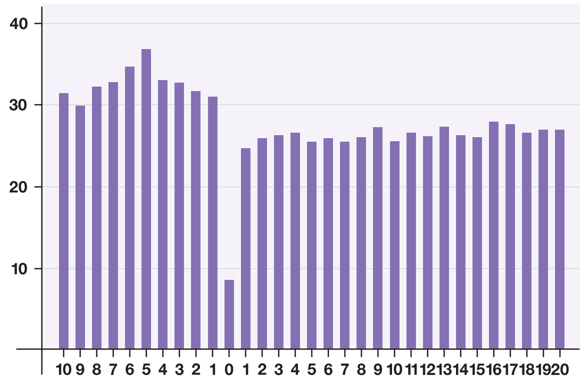
Figure 1
Are donors influenced by how much other people have given?

A: Effect of a large donation



X: Donations before/after **Y:** Mean of amount

B: Effect of a small donation



X: Donations before/after **Y:** Mean of amount

Source: Data taken from Justgiving and Virgin Money Giving Fundraising pages, 2010 London Marathon; Smith et al (2012)

Further reading

Francisco Alpizar, Frederik Carlsson and Olof Johansson-Stenman (2008) *'Anonymity, Reciprocity, and Conformity: Evidence from Voluntary Contributions to a National Park in Costa Rica'*, Journal of Public Economics.

Katherine Carman (2004) *'Social Influences and the Private Provision of Public Goods: Evidence from Charitable Contributions in the Workplace'*, Harvard University Working Paper.

Jonathan Meer (2011) *'Brother, Can You Spare a Dime: Peer Pressure in Charitable Solicitation'*, Journal of Public Economics.

Jen Shang and Rachel Croson (2009) *'Field Experiments in Charitable Contribution: The Impact of Social Influence on the Voluntary Provision of Public Goods'*, Economic Journal.

Lise Vesterlund (2003) *'The Informational Value of Sequential Fundraising'*, Journal of Public Economics.